

AN AUDIT OF  
*WHA Television*

*98-19*

*December 1998*

**1997-98 Joint Legislative Audit Committee Members**

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State of Wisconsin

LEGISLATIVE AUDIT BUREAU



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December 30, 1998

Senator Mary A. Lazich and  
Representative Carol Kelso, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Mr. San W. Orr, Jr.  
President of the Board of Regents  
University of Wisconsin  
1860 Van Hise Hall  
Madison, Wisconsin 53706

Dear Senator Lazich, Representative Kelso, and Mr. Orr:

We have completed a financial audit of WHA Television, a public telecommunications entity operated by the University of Wisconsin-Extension. The audit was requested by the University of Wisconsin-Extension to fulfill the audit requirements of the Corporation for Public Broadcasting. Our audit report contains the financial statements and related notes for the period July 1, 1997 through June 30, 1998.

A new accounting standard requires WHA Television to include a note disclosure on its Year 2000 readiness. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. As a result, we qualify our independent auditor's report because, in our judgement, it is not possible to obtain sufficient evidence to support WHA Television's disclosures with respect to the year 2000 issue.

We appreciate the courtesy and cooperation extended to us by University of Wisconsin-Extension staff during the audit.

Respectfully submitted,

Janice Mueller  
State Auditor

JM/DA/ce



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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF WHA TELEVISION, A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY THE UNIVERSITY OF WISCONSIN-EXTENSION

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We have audited the accompanying balance sheet of WHA Television as of June 30, 1998, and the related statements of financial activity and cash flows for the year then ended. These financial statements are the responsibility of the management of WHA Television. Our responsibility is to express an opinion on these financial statements, based on our audit. We did not audit the financial statements of the Friends of WHA-TV, Inc., which represent 18.0 percent of total assets and 23.8 percent of total support and revenues. The statements of Friends of WHA-TV, Inc., were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Friends of WHA-TV, Inc., is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Friends of WHA-TV, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Auditing Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. WHA Television has included such disclosures in Note 10. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, in our judgment, it is not possible to obtain sufficient evidence to support WHA Television's disclosures with respect to the year 2000 issue made in Note 10. Further, we do not provide assurance that WHA Television is or will be year 2000 ready, that WHA Television's year 2000 remediation efforts will be successful in whole or in part, or that parties with which WHA Television does business will be year 2000 ready.

As discussed in Note 1, the financial statements present only WHA Television and are not intended to present fairly the financial position of the State of Wisconsin and the results of its operations and changes in fund

balances of its fund types in accordance with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had it been possible to obtain sufficient evidence regarding year 2000 disclosures, based upon our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of WHA Television as of June 30, 1998, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

WHA Television implemented Governmental Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, during fiscal year 1997-98, which is discussed in Note 2 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 1998 on our consideration of WHA Television's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

LEGISLATIVE AUDIT BUREAU

December 11, 1998 by

Diann Allsen  
Audit Director

**WHA Television**  
**A Public Telecommunications Entity**  
**Operated by the University of Wisconsin-Extension**  
**Balance Sheet**  
**June 30, 1998**

Statement 1

	Unrestricted Fund	Restricted Fund	Friends of WHA-TV, Inc.	Property Fund	Total June 30, 1998	Total June 30, 1997
<b>Assets</b>						
Current Assets:						
Cash and cash equivalents (Note 3)	\$ 121,892	\$ 0	\$ 181,543	\$ 0	\$ 303,435	\$ 508,947
Grants and contracts receivable	0	2,311,968	0	0	2,311,968	1,644,024
Accounts and interest receivable (net)	199,578	0	117,543	0	317,121	176,475
Contributions receivable	0	0	64,217	0	64,217	0
Due from the University of Wisconsin	742,016	0	0	0	742,016	379,567
Interfund receivable (payable)	231,494	0	(231,494)	0	0	0
Film rights	2,505	0	0	0	2,505	35,663
Prepaid expenses	42,445	0	16,147	0	58,592	59,643
<b>Total Current Assets</b>	<b>1,339,930</b>	<b>2,311,968</b>	<b>147,956</b>	<b>0</b>	<b>3,799,854</b>	<b>2,804,319</b>
Investments (Note 3)	2,222,118	0	1,756,310	0	3,978,428	3,543,658
Property and Equipment:						
Production equipment	0	0	0	6,645,638	6,645,638	6,723,959
Transmission equipment	0	0	0	1,511,825	1,511,825	1,511,825
Furniture and fixtures	0	0	56,423	406,618	463,041	459,438
Vehicles	0	0	0	103,897	103,897	103,897
<b>Total Property and Equipment</b>	<b>0</b>	<b>0</b>	<b>56,423</b>	<b>8,667,978</b>	<b>8,724,401</b>	<b>8,799,119</b>
Less-Accumulated Depreciation	0	0	(52,666)	(5,862,700)	(5,915,366)	(5,618,490)
<b>Net Property and Equipment</b>	<b>0</b>	<b>0</b>	<b>3,757</b>	<b>2,805,278</b>	<b>2,809,035</b>	<b>3,180,629</b>
<b>Total Assets</b>	<b>\$3,562,048</b>	<b>\$2,311,968</b>	<b>\$1,908,023</b>	<b>\$2,805,278</b>	<b>\$10,587,317</b>	<b>\$9,528,606</b>
<b>Liabilities and Fund Balances</b>						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 306,201	\$ 65,120	\$ 206,438	\$ 0	\$ 577,759	\$ 640,851
Due to the University of Wisconsin	0	525,341	0	0	525,341	0
Deferred support (Note 5)	0	1,721,507	0	0	1,721,507	1,298,305
<b>Total Current Liabilities</b>	<b>306,201</b>	<b>2,311,968</b>	<b>206,438</b>	<b>0</b>	<b>2,824,607</b>	<b>1,939,156</b>
Fund Balances:						
Unrestricted fund balance (Note 8)	3,255,847	0	1,637,368	0	4,893,215	4,414,388
Temporarily restricted (Note 7)	0	0	64,217	0	64,217	0
Net investment in property and equipment	0	0	0	2,805,278	2,805,278	3,175,062
<b>Total Fund Balances</b>	<b>3,255,847</b>	<b>0</b>	<b>1,701,585</b>	<b>2,805,278</b>	<b>7,762,710</b>	<b>7,589,450</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$3,562,048</b>	<b>\$2,311,968</b>	<b>\$1,908,023</b>	<b>\$2,805,278</b>	<b>\$10,587,317</b>	<b>\$9,528,606</b>

The accompanying notes are an integral part of this statement.

**WHA Television**  
**A Public Telecommunications Entity**  
**Operated by the University of Wisconsin-Extension**  
**Statement of Financial Activity**  
**for the Year Ended June 30, 1998**

Statement 2

	Unrestricted Fund	Restricted Fund	Friends of WHA-TV, Inc.	Property Fund	Total 1997-98	Total 1996-97
<b>Support and Revenue</b>						
State general appropriation	\$3,523,716	\$ 0	\$ 0	\$ 0	\$3,523,716	\$3,190,925
State building trust funds	0	75,805	0	0	75,805	255,948
Donated facilities and administrative support from the University of Wisconsin (Note 4)	2,079,626	0	0	0	2,079,626	1,927,066
Community services grant-CPB	767,495	0	0	0	767,495	782,753
Other grants	494,428	1,855,376	0	0	2,349,804	2,685,922
Telecasting, production, and other income	842,857	0	368,258	0	1,211,115	1,268,839
Membership income	0	0	1,987,582	0	1,987,582	1,887,581
Auction income	0	0	488,945	0	488,945	448,669
Investment Income	190,312	0	233,537	0	423,849	314,674
<b>Total Support and Revenue</b>	<b>7,898,434</b>	<b>1,931,181</b>	<b>3,078,322</b>	<b>0</b>	<b>12,907,937</b>	<b>12,762,377</b>
<b>Expenses</b>						
Program Services:						
Programming and production	5,183,885	1,775,934	109,559	591,740	7,661,118	7,108,082
Broadcasting	273,522	34,265	0	103,232	411,019	407,738
Program information	1,102,990	89,331	102,544	6,400	1,301,265	1,080,277
<b>Total Program Services</b>	<b>6,560,397</b>	<b>1,899,530</b>	<b>212,103</b>	<b>701,372</b>	<b>9,373,402</b>	<b>8,596,097</b>
Support Services:						
Management and general	2,315,264	0	115,195	1,724	2,432,183	2,097,421
Fundraising and membership development	165,263	26,607	876,763	0	1,068,633	955,518
<b>Total Support Services</b>	<b>2,480,527</b>	<b>26,607</b>	<b>991,958</b>	<b>1,724</b>	<b>3,500,816</b>	<b>3,052,939</b>
<b>Total Expenses</b>	<b>9,040,924</b>	<b>1,926,137</b>	<b>1,204,061</b>	<b>703,096</b>	<b>12,874,218</b>	<b>11,649,036</b>
Excess (deficiency) of support and revenue over expenses	(1,142,490)	5,044	1,874,261	(703,096)	33,719	1,113,341
<b>Fund Balances</b>						
Fund balance at beginning of year	3,105,724	0	1,308,664	3,175,062	7,589,450	6,235,091
Prior-period corrections (Note 9)	0	0	0	0	0	507,785
Cumulative effect of accounting change	34,211	0	105,330	0	139,541	(266,767)
<b>Adjusted Beginning Fund Balance</b>	<b>3,139,935</b>	<b>0</b>	<b>1,413,994</b>	<b>3,175,062</b>	<b>7,728,991</b>	<b>6,476,109</b>
Inter-fund transfer for equipment acquisition	(328,268)	(5,044)	0	333,312	0	0
Inter-fund donation	1,586,670	0	(1,586,670)	0	0	0
<b>Fund Balance at End of Year</b>	<b>\$3,255,847</b>	<b>\$ 0</b>	<b>\$1,701,585</b>	<b>\$2,805,278</b>	<b>\$7,762,710</b>	<b>\$7,589,450</b>

The accompanying notes are an integral part of this statement.

**WHA Television**  
**A Public Telecommunications Entity**  
**Operated by the University of Wisconsin-Extension**  
**Statement of Cash Flows**  
**for the Year Ended June 30, 1998**

Statement 3

	Operating Funds	Friends of WHA-TV, Inc. Fund	Property Fund	Total 1997-98	Total 1996-97
<b>Cash Flows from Operating Activities</b>					
Excess (deficiency) of revenues over expenses	\$(1,137,446)	\$ 1,874,261	\$ (703,096)	\$ 33,719	\$ 1,113,341
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:					
Depreciation	0	1,810	703,096	704,906	716,404
Gain on disposal of fixed assets	0	0	0	0	(1,049)
Unrealized (gain) loss on investments	(60,958)	(97,034)	0	(157,992)	0
Realized (gain) loss on investments	0	(3,879)	0	(3,879)	0
Changes in cash due to:					
(Increase) Decrease in grants and contracts receivable	(667,944)	0	0	(667,944)	(185,057)
(Increase) Decrease in accounts and interest receivable	(64,219)	(76,427)	0	(140,646)	264,846
(Increase) Decrease in contributions receivable	0	(64,217)	0	(64,217)	0
(Increase) Decrease in due from the University of Wisconsin	(362,449)	0	0	(362,449)	(379,567)
(Increase) Decrease in interfund receivable	487,233	(487,233)	0	0	507,785
(Increase) Decrease in film rights	33,158	0	0	33,158	140,591
(Increase) Decrease in prepaid expense	(3,196)	4,247	0	1,051	(35,805)
Increase (Decrease) in accounts payable and accrued expenses	(99,307)	36,215	0	(63,092)	(676,443)
Increase (Decrease) in due to the University of Wisconsin	525,341	0	0	525,341	(343,218)
Increase (Decrease) in deferred support	423,202	0	0	423,202	26,102
Net Cash Provided by Operating Activities	(926,585)	1,187,743	0	261,158	1,147,930
<b>Cash Flows from Noncapital Financing Activities</b>					
Interfund donations	1,586,670	(1,586,670)	0	0	0
Net Cash Provided (Used) by Noncapital Financing Activities	1,586,670	(1,586,670)	0	0	0
<b>Cash Flows from Capital and Related Financing Activities</b>					
Purchase of property and equipment	0	0	(333,312)	(333,312)	(856,798)
Interfund transfer for equipment acquisition	(333,312)	0	333,312	0	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(333,312)	0	0	(333,312)	(856,798)
<b>Cash Flows from Investing Activities</b>					
Sale, maturity, (purchase) of other investments	(359,985)	226,627	0	(133,358)	(2,591,756)
Net Cash Provided (Used) by Investing Activities	(359,985)	226,627	0	(133,358)	(2,591,756)
Increase (Decrease) in Cash and Cash Equivalents	(33,212)	(172,300)	0	(205,512)	(2,300,624)
<b>Cash and Cash Equivalents</b>					
Beginning of year	155,104	353,843	0	508,947	2,809,571
End of year	\$ 121,892	\$ 181,543	\$ 0	\$ 303,435	\$ 508,947

The accompanying notes are an integral part of this statement.



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# NOTES TO FINANCIAL STATEMENTS

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## 1. Summary of Significant Accounting Policies

### Organization

WHA Television (the Station) is licensed to the Board of Regents of the University of Wisconsin (UW) System. The financial statements include the accounts of the Friends of WHA-TV, Inc., (the Friends). The Friends solicit funds in the name of, and with the approval of, the Station. Funds are distributed by the Friends to the Station in amounts determined by the Board of the Friends (of which the Station Manager is a member). The timing and the purpose for which such distributions are to be used are controlled by the Friends. All significant inter-organization accounts and transactions have been eliminated.

### Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). As permitted by GASB, WHA Television follows the American Institute of Certified Public Accountants (AICPA) not-for-profit model, which includes the accounting and financial reporting principles contained in AICPA's Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, as modified by all applicable Financial Accounting Standards Board pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. In addition, provisions of the Corporation for Public Broadcasting's *Accounting and Financial Reporting for Public Telecommunications Entities* (1990 ed.) that were not contradictory with the AICPA not-for-profit model were followed. The financial statements have been prepared on the accrual basis of accounting.

### Fund Accounting

The assets, liabilities, and fund balances of the Station are reported in three fund groups:

- Operating Funds—include restricted and unrestricted resources used for support of the Station's operations.

- Property Fund—includes the resources expended for property and equipment.
- Friends of WHA-TV, Inc., Fund—includes resources restricted for use by that organization for the benefit of the Station.

#### Revenue Recognition

Contributions, pledges, and grants that are unrestricted as to use are recorded as support in the statement of financial activity when WHA Television is entitled to receive the revenue.

Restricted resources of the Station are those that are to be used for specific programming, broadcasts, or acquisitions. The unexpended portion of restricted grants is reported on the balance sheet as deferred support until the related expenses have been incurred.

The membership fees of the Friends are not refundable and are recognized as income in the year earned. The Friends also recognize revenue for contributions pledged during the year but not yet received at fiscal year-end.

#### Due to (from) the University

Substantially all contributions and grant monies received by the Station are deposited with the University of Wisconsin until the related expenses are incurred. In addition, expenses related to certain contributions and grants may be incurred by the University of Wisconsin prior to receipt of funding from the granting agency. The receivable or payable that results is reflected in the balance sheet in these accounts.

#### Allocation of Expenses to Functional Categories

Expenses are classified in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates as necessary.

#### Cash and Cash Equivalents

Cash and cash equivalents in the Station's unrestricted fund include cash balances deposited with the State Treasurer and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the Friends of WHA-TV, Inc., fund include cash deposits with financial institutions.

### Valuation of Investments

All investments of the Station and Friends of WHA-TV, Inc., are carried at fair value based on quoted market price. State Investment Fund shares are valued at amortized cost, which approximates fair value.

### Property and Equipment

Items classified as fixed assets are recorded at cost or, for donated property, at the estimated fair-market value at date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 4 to 15 years. Expenses for repairs and maintenance are charged to operating expenses as incurred.

### Employee Compensated Absences

Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System are also accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay.

### Prior-Year Financial Statements

The financial information shown for fiscal year (FY) 1996-97 in the accompanying financial statements presents summarized totals and is included to provide a basis for comparison with FY 1997-98 only.

## **2. Accounting Changes**

In FY 1997-98, WHA-TV adopted GASB Statement 31: *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires WHA-TV to report its investments at fair value in its balance sheet, with unrealized gains or losses recognized in the Statement of Financial Activities. The cumulative effect for years prior to FY 1997-98 is shown as a restatement of the beginning fund balance in the amount of \$139,541. WHA-TV did not re-state the FY 1996-97 financial balances because the fair values of the investments at the end of FY 1995-96 were not readily available.

In FY 1996-97, the capitalization threshold for property and equipment was increased from \$1,000 to \$5,000. The cumulative effect of

expensing equipment purchased in years prior to FY 1996-97 at a cost of less than \$5,000 and with a remaining undepreciated value is a reduction of \$266,767 in the fund balance of the property fund.

### **3. Deposits and Investments**

*Deposits* - Cash and cash equivalents of \$121,892 in the Station's unrestricted fund are in the custody of the State of Wisconsin Treasurer and invested through the State Investment Fund, a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees as authorized in ss. 25.14 and 25.17, Wis. Stats. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Investments of the State Investment Fund consist of direct obligations of the United States and Canada, securities of federally chartered corporations, unsecured notes of qualifying financial and industrial issuers, Yankee/Eurodollar issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances.

GASB Statement 3 requires deposits and investments to be categorized to indicate the level of credit risk assumed. As of June 30, 1998, all investments and 94 percent (\$279.1 million) of the certificates of deposit held by the State Investment Fund that are required to be categorized fall under Category 1. Cash deposits in risk category 1 are insured or collateralized with securities held by the State Investment Fund or by its agent in the State Investment Fund's name. Investments in risk category 1 are insured or registered, or are held by State Investment Fund or its agent in State Investment Fund's name. The remaining 6 percent (\$17.3 million) would be considered Category 3, uncollateralized deposits.

The Friends of WHA-TV, Inc., maintains a cash deposit balance at one financial institution. The account is insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 1998, the Friend's uninsured deposit balance was \$101,510.

*Investments* - The Station's investments consisted of the following at June 30, 1998:

	<u>Carrying Fair Value</u>	<u>Cost</u>
Intermediate Term Pooled Bond Funds	\$1,141,128	\$1,131,901
Long-Term Pooled Bond & Equity Funds	<u>1,080,990</u>	<u>995,048</u>
	<u><u>\$2,222,118</u></u>	<u><u>\$2,126,949</u></u>

The Friends of WHA-TV, Inc.'s investments consisted of the following:

	<u>Carrying Fair Value</u>	<u>Cost</u>
Intermediate Bond Fund	\$ 127,707	\$ 127,427
Money Market Fund	205,477	205,477
Fixed Income Funds	267,575	262,885
Equity Mutual Funds	<u>1,155,551</u>	<u>958,157</u>
	<u><u>\$1,756,310</u></u>	<u><u>\$1,553,946</u></u>

All investments of WHA are in pooled funds and, therefore, are not required to be categorized for credit risk under GASB Statement 3.

#### **4. Donated Facilities and Administrative Support from the University of Wisconsin**

Donated facilities from the University of Wisconsin consist of physical plant operating costs of \$539,329 and occupancy costs of \$88,920 for FY 1997-98. Such contributions are recorded at the University's cost of providing them. Administrative support from the University of Wisconsin consists of allocated financial and administrative costs incurred by the University on behalf of the Station. Administrative support provided in FY 1997-98 totaled approximately \$1,451,377.

## 5. Changes in Deferred Support

Beginning-of-year balance	\$1,298,305
(-) Prior-year earned	(1,293,272)
+ Additions	<u>1,716,474</u>
End-of-year balance	<u>\$ 1,721,507</u>

## 6. Employee Retirement Plan

Permanent, full-time employees of the Station are participants in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. It was established to provide retirement pension benefits for state and local government public employees at a rate influenced by (1) the employees' final average earnings, (2) years of creditable service, and (3) a formula factor. The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1997, may be obtained by writing to:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Retirement System. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. WHA-Television's contributions to the plan were \$653,974 for FY 1997-98. The relative position of WHA Television in the Wisconsin Retirement System is not available, since the System is a statewide, multi-employer plan.

## 7. Temporarily Restricted Fund Balance

During the year ended June 30, 1998, Friends' received an interest in a charitable remainder trust. The trust provides for the payment and distribution to the donor and donor's spouse until their deaths. At the end of the trust's term, the remaining assets are available for the Friends' use. The present value of the estimated future benefits of

\$64,217 is calculated using a discount rate of 7 percent and applicable mortality rate tables.

## **8. Designation of Unrestricted Fund Balance**

The management of the Friends of WHA-TV has designated \$432,288 of the unrestricted fund balance that represents the unrestricted portion of endowment funds for future program production and acquisition. In addition, \$100,000 has been designated for Fund for Wisconsin for future program and production.

## **9. Prior-Period Corrections**

FY 1996-97 financial data, presented for comparative purposes, have been restated to correct a long-standing error in consolidating Friends of WHA-TV, Inc., into WHA-Television's financial statements. The Friends provide a year-end supplemental grant, the amount of which is generally not determined until the Friends' audited statements are issued in September or October. WHA-Television had previously recognized the grant in the year received, rather than the year the commitment is made by Friends. In addition, accounts payable and cash have been reduced by \$14,691, due to a failure to reverse a prior-year accrual.

Finally, FY 1996-97 financial data were changed to separately report investments that had been previously reported as cash and cash equivalents. The following accounts were affected by these changes and have been restated by the amounts shown:

Unrestricted Fund Balance	\$507,785
Cash and Cash Equivalents	(\$2,022,764)
Investments	\$2,008,073
Accounts Payable	(\$426,062)
Programming and Production Expense	\$96,414

## **10. Year 2000 Compliance**

Technical issues associated with the arrival of the year 2000 have the potential of disrupting certain types of business and operational activities that rely heavily on computer systems. The usage of two digits (i.e., 99) to represent the year in many older computer programs, data files, or chips may be recognized incorrectly when the year 2000

arrives. To eliminate the problem, all software, data, and hardware that relies on a two-digit field to represent the year must be converted to four digits prior to December 31, 1999.

The Station has identified the applications that are most critical to its operations and are required to be Year 2000 compliant. The mission-critical applications include those systems that involve TV project accounting systems and a database of volunteers.

The Station is subjecting internal systems that are mission critical to the following process to address Year 2000 compliance:

- awareness stage – identification of a project plan for dealing with Year 2000 issues;
- assessment stage – identification of the systems and components for which Year 2000 work is needed;
- remediation stage – modification to systems and equipment; and
- validation/testing stage – validation and testing of the changes that were made during the remediation stage.

WHA-Television has completed the awareness stage. As part of the assessment stage of internal systems used for day-to-day operations, the Station has identified potential year 2000 problems for two database applications that currently reside on a WANG VS: TV project accounting systems, which are used for managing and invoicing projects, and a database that maintains information on volunteers. The Station is in the remediation and validation stages to address the year 2000 problems. It is in the process of migrating these systems to new year 2000-compliant applications software, which is expected to be completed by June 1999.

Most of the administrative computing used by WHA-Television, such as for accounting, payroll, and endowment activities, is maintained by UW System or UW-Extension. They have reviewed their systems in response to a mandate from the State of Wisconsin Department of Administration and the UW System President. Neither UW System nor UW-Extension has identified year 2000 problems that would materially affect the operations of WHA-TV.

WHA-Television cannot provide absolute assurances that all year 2000 problems will be corrected by January 1, 2000, nor that all information technology systems will continue to work efficiently on January 1, 2000. There remains a possibility that some year 2000 problems will

not be identified or corrected by January 1, 2000. However, the Station believes that the actions it is currently completing should minimize such potential problems, especially for critical business applications.

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statements of WHA Television as of and for the year ended June 30, 1998, and have issued our report thereon dated December 11, 1998, which was qualified because it was not possible to obtain sufficient evidence to support WHA Television's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Friends of WHA-TV, Inc., were not audited in accordance with *Government Auditing Standards*.

## Compliance

As part of obtaining reasonable assurance about whether WHA Television's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered WHA Television's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of WHA Television's management, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This restriction is not intended to limit the distribution of this report, which, upon submission to the Joint Legislative Audit Committee, is a matter of public record.

LEGISLATIVE AUDIT BUREAU

December 11, 1998 by

Diann Allsen  
Audit Director